Proxy Voting Guidelines for External Managers

**Topic:** Environmental Issues
**Subtopic:** Carbon Offsets
**Approved:** January 19, 2023

**Description:**

Resolutions that request a company disclose how carbon offsetting is part of their corporate climate strategy or planned to meet greenhouse gas (GHG) reduction targets. Resolutions may ask a company to disclose details about the carbon credits used.

**Topic background:**

Corporations are participating in the voluntary carbon market to meet climate-related commitments. This includes the buying and selling of carbon credits to offset or reduce a company’s net GHG emissions. The voluntary market\(^1\) has grown rapidly since 2020, and with it, concern around some methods for generating carbon offsets and how they are used by companies to achieve corporate GHG reduction targets.

Carbon offsetting can have an important role in supporting economic activity that confronts the climate crisis, for example by supporting the transition to renewable energy or removing carbon from the atmosphere. The Intergovernmental Panel on Climate Change (IPCC) pathways that limit global warming to 1.5 degrees Celsius incorporate some carbon dioxide removal (CDR) use.\(^2\) Although at the company level, poor management or lack of transparency around the use of offsetting may result in business risks such as litigation and reputation damage. Improper use of carbon credits across the economy can delay climate action and increase the systemic risks of climate change. Creditable company carbon offset programs should seek durability, proven additionality and carbon accounting, and methods that do not harm surrounding ecosystems or communities. To assess the quality of a company’s offset program and level of reliance to achieve climate-related commitments, shareholders require the appropriate level of transparency and reporting from companies.

There are different types of activities that can generate carbon offsets or credits and have meaningfully different effects on atmospheric GHGs. Generally, all carbon offsetting happens outside of a company’s value chain. There are two main types of carbon credits – emissions avoidance/reductions and carbon CDR. Emissions avoidance/reductions include offsets generated from switching to renewable energy, reducing GHG emissions through application of new technologies, efficiency improvements, and avoiding destruction or conversion of ecosystems.

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\(^1\) The voluntary carbon market is different from the compliance carbon market. In the compliance carbon market regulated entities purchase and surrender offsets or allowances to meet targets enforced by regulation such as through cap-and-trade programs.

\(^2\) For more information see the IPCC, *Special Report: Global Warming of 1.5°C*, Chapter 2 – Mitigation pathways compatible with 1.5°C in the context of sustainable development.
CDR removes GHGs from the atmosphere and includes offsets from afforestation/reforestation, direct air capture and storage, and biomass carbon removal and storage. The former type of carbon offsets has received the most scrutiny from company stakeholders, and in some instances, there is lack of evidence that the emissions reductions would have not happened otherwise.\(^3\)

**Considerations for voting:**

- If a company is already using carbon credits or offsetting as part of their climate strategy, does the reporting provide sufficient disclosure on how carbon offsets are a part of their overall climate strategy and details about the carbon credits being used?\(^4\)
  - Important components of disclosure include how a company is managing carbon credits, third-party verification, the type(s), and volume of offsets retired or surrendered. There are emerging frameworks such as the Voluntary Carbon Markets Integrity Initiative that seek to provide guidance for net-zero aligned participation in the voluntary carbon market.
- Given existing standards around net-zero pledges, it is helpful to understand whether a company has communicated that carbon offsetting will be used only for residual (unabated) emissions and the percentage they plan to neutralize with carbon dioxide removals.
- Is the company using carbon offsets to delay climate action and/or increase their long-term climate transition risk? Is the use of offsets in place of taking meaningful steps to address climate risk in their operations?
- All reports should be prepared at reasonable cost and omit proprietary information.

**Illustrative examples of votes:**

1. Vote in support of shareholder resolutions that request a company provide robust annual disclosure of its forward-looking offsetting strategy and any use of carbon credits.
2. Vote in support of shareholder resolutions that request a company disclose its use of carbon credits, including type of credits, verification, timing, and whether carbon credits are intended to substitute for emissions reductions beyond current goals.
3. Vote in support of shareholder resolutions that request a company disclose the role of offsets in achieving their climate goals.
4. Vote against shareholder resolutions that impose highly prescriptive requirements or mandates for a company’s approach to carbon offsets.

*Harvard offers broader general guidance on its recommended approach to considering shareholder resolutions in ‘Overview of Harvard University’s Proxy Voting Guidelines for External Managers’* (follow link to download full text). *When determining votes on resolutions, we consider each resolution in light of this general guidance as well as in light of a resolution’s specific request and contextual information about the relevant company and its approach to the issue.*

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\(^3\) Eglin, *These Trees Are Not What They Seem*, Bloomberg, 12/9/2020
\(^4\) Although not yet adopted at the time of this writing, the U.S. Securities and Exchange Commission’s proposed rules for the enhancement and standardization of climate-related disclosures would require registrants to disclose the role that carbon offsets play in the company’s climate strategy. [Release Nos. 33-11042; 34-94478](https://www.sec.gov/rules/final/2021/33-11042-94478-final规则)